

## **Fiscal consolidation and growth trend of developmental expenditure of Tamil Nadu**

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**Abstract:** *State government expenditure is an important instrument for the protection and promotion of socio-economic welfare of the citizen. The chronic nature of India's fiscal crisis, reduction in Central resource flows to the states in the name of reforms and the states' difficulties in raising revenue have an adverse impact on state governments' expenditure. Within the total expenditure, the compression fell on developmental expenditure. In this context, an attempt has been made to address the following questions: i) Are there any changes in the composition of revenue expenditure of Tamil Nadu after reforms? ii) What is the impact of economic reforms on developmental expenditure of Tamil Nadu? iii) How far developmental expenditure is responsive to the growth of the economy during the post reform period?*

**Keywords:** Fiscal Consolidation, Public Expenditure, Developmental Expenditure, Growth Trend

### **Introduction**

Public expenditure refers to the expenditure incurred by the government and their representatives to whom the power of such spending has been delegated by legislation or executive order by an appropriate authority. Explaining the growth of public expenditure has always been a wide field in the science of public finance. One of the usual methods of presenting Government expenditure on revenue account is to classify it into two categories, namely, Developmental Expenditure and Non-Developmental Expenditure.

The developmental expenditure is the expenditure which helps in the development of the economy. Social & Community Services and Economic Services are the two components of developmental expenditure. The prime objectives of social sector expenditure of the States are to improve the standard of living of the people and to achieve maximum social welfare. Education and health are the two major heads among social sectors. Economic Services include the activities and services meant for economic development. Agriculture and allied activities, Industry and Minerals, Transport and Communication, Energy etc. come under Economic Services.

Non-developmental expenditure provides a good atmosphere, that is, it protects the people from internal as well as external aggression. The expenditures under the heads defence, charges for collection of taxes and duties, administrative services, interest on debt and other expenditure on general services are grouped under non development expenditure.

The state plays a major role in providing social and economic infrastructure and promoting economic development, social justice and welfare in the state. Therefore state

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Any remaining errors or omissions rest solely with the author(s) of this paper.

## Fiscal consolidation and growth trend of developmental expenditure of Tamil Nadu

government expenditure is an important instrument for the protection and promotion of socio-economic welfare of citizen. India is described as a union of states. Therefore, the problems of the Central Government are reflected at the state level. The chronic nature of India's fiscal crisis, reduction in Central resource flows to the states in the name of reforms and the states' difficulties in raising revenue have an adverse impact on state government expenditure. Within the total expenditure, the compression fell on developmental expenditure.

“If fiscal contraction is achieved through a cut in development spending and much needed public investment in social and physical infrastructure, it can have a dampening effect on growth as well (Pinaki Chakraborty and Lekha Chakraborty, 2013). EPW Research Foundation (2001) pointed out that as a proportion of aggregate expenditure consist of both revenue and capital accounts, developmental expenditure fell from about 66 to 70 per cent in the early 1990s to less than 60 per cent at the end of the decade, with a corresponding increase in the share of non-development expenditure. Such erosion in development expenditure has occurred even as proportion of GDP.

According to Atul Sarma, in Gujarat, development expenditure as percentage of States' NSDP tended to decline while the ratio relating to non-development expenditure rose. “Thus fiscal deficit had been contained through severe budgetary contraction of the economy. As there was tax revenue slippage, to offset, development expenditure bore most of the burden”. (Venkatataja, 2014). The study made by Seema Joshi (2006), Zico Dasgupta (2012), also depicted the same result.

In this context, an attempt has been made in Tamil Nadu to address the following questions: i) Are there any changes in the composition of revenue expenditure of Tamil Nadu after reforms? ii) What is the impact of economic reforms on developmental expenditure of Tamil Nadu? iii) How far developmental expenditure is responsive to the growth of the economy during the post reform period?

Secondary data form the basis of this study. The necessary data were collected from Budget Documents of the State Government, RBI Website and Economic Survey. Simple Percentage, Compound Annual Growth Rate and regression coefficient were calculated

### **Results and Discussion**

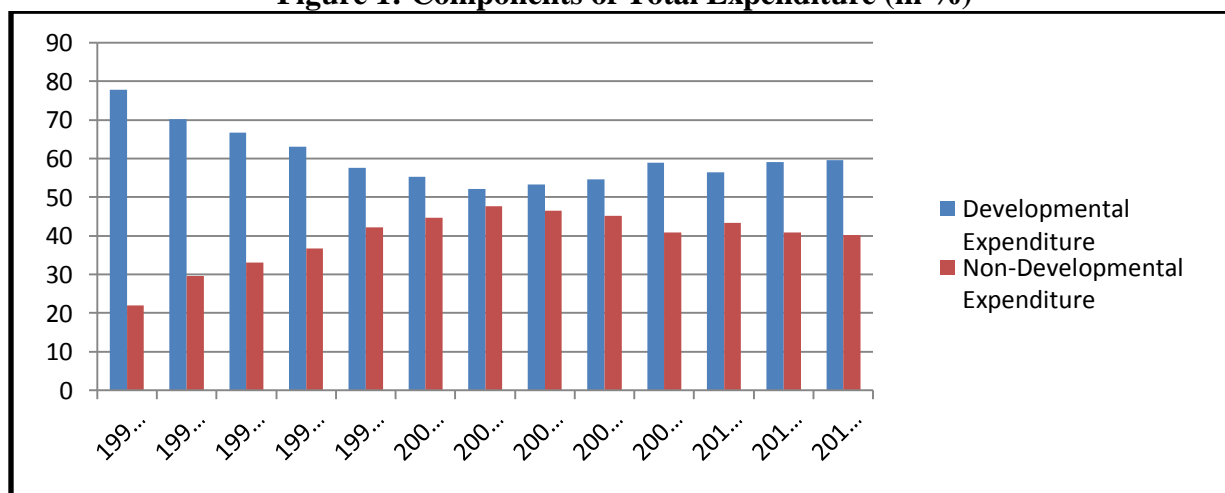
Table 1 displays the percentage share of developmental and non-developmental expenditure (inclusive of contributions and assignment to local bodies) to the total revenue expenditure. Developmental expenditure constituted more than two-third of the total expenditure prior to 1991. But the share of this item in total expenditure dipped continuously during the post-reform period till 2004-05 and became 51.92 per cent in that year. Afterwards it showed an increasing trend except the year 2010-11. In the last year of analysis the share of developmental expenditure is 59.70 percent. It means that non-developmental expenditure has positive growth after the introduction of economic reforms. That is, non-developmental expenditure on revenue account increased at the expense of developmental expenditure in the post reform period.

**Table 1: Components of Total Expenditure (in %)**

Year	Developmental Expenditure	Non-Developmental Expenditure	Year	Developmental Expenditure	Non-Developmental Expenditure
1991-92	77.93	22.07	2004-05	51.92	48.08
1992-93	73.09	26.91	2005-06	53.39	46.61
1993-94	70.32	29.68	2006-07	54.42	45.58
1994-95	68.88	31.12	2007-08	54.68	45.32
1995-96	66.81	33.19	2008-09	57.91	42.09
1996-97	66.11	33.89	2009-10	59.08	40.92
1997-98	63.20	36.80	2010-11	56.41	43.59
1998-99	60.93	39.07	2011-12	56.54	43.46
1999-2000	57.70	42.30	2012-13	57.95	42.05
2000-01	57.10	42.90	2013-14	59.11	40.89
2001-02	55.29	44.71	2014-15	59.92	40.08
2002-03	55.42	44.58	2015-16	58.80	41.20
2003-04	52.25	47.75	2016-17	59.70	40.30

Source: Calculated

**Figure 1: Components of Total Expenditure (in %)**



The growth of development and non-development expenditure on revenue account for a period of 26 years from 1991-92 to 2016-17 is presented in Table-2

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**Table 2: Growth Trend of Development & Non-Development Expenditure of Tamil Nadu**

YEAR	Developmental Expenditure			Non-Developmental Expenditure		
	TE	PE	% to NSDP	TE	PE	% to NSDP
1991-92	6764.04	1210.91	20.76	1717.48	307.47	5.27
1992-93	6243.96	1104.86	16.47	2006.79	355.10	5.29
1993-94	6158.46	1077.25	11.93	2469.56	431.98	4.78
1994-95	6636.18	1147.67	10.83	2865.53	495.57	4.68
1995-96	7289.85	1246.60	10.46	3408.25	582.83	4.89
1996-97	8637.13	1460.64	10.92	4095.52	692.60	5.18
1997-98	9448.52	1580.36	10.19	4672.06	781.45	5.04
1998-99	10782.65	1783.97	10.20	5879.77	972.80	5.56
1999-2000	11959.64	1957.50	9.99	7743.12	1267.36	6.47
2000-01	12420.22	2011.33	9.52	8353.71	1352.80	6.41
2001-02	11919.44	1909.98	9.07	8920.96	1429.50	6.79
2002-03	14235.67	2246.11	10.30	9894.91	1561.22	7.16
2003-04	13205.17	2052.00	8.58	10589.10	1645.48	6.88
2004-05	15136.84	2317.13	5.71	12058.26	1845.86	4.55
2005-06	17088.91	2577.54	5.65	12890.90	1944.35	4.26
2006-07	20823.10	3095.34	5.89	14994.86	2228.97	4.24
2007-08	23496.93	3442.99	5.73	16128.78	2363.34	3.94
2008-09	31032.81	4483.27	6.55	18577.70	2683.90	3.92
2009-10	35079.40	4997.61	6.44	20296.54	2891.56	3.72
2010-11	41131.50	5779.68	6.34	25923.43	3642.69	4.00
2011-12	47403.83	6571.18	6.06	28941.19	4011.86	3.70
2012-13	56251.24	7693.81	6.33	31652.12	4329.25	3.56
2013-14	64920.35	8762.88	6.47	35729.24	4822.70	3.56
2014-15	77192.45	10284.25	6.95	41655.19	5549.67	3.75
2015-16	86906.34	11430.20	7.10	47319.34	6223.59	3.87
2016-17	97927.86	12717.00	7.17	53286.55	6919.84	3.90
<b>CAGR</b>	<b>10.83</b>	<b>9.47</b>		<b>14.12</b>	<b>12.72</b>	

**Note:** Total Expenditure in Cores of Rupees, Per capita Expenditure in Rupees

**Source:** TE: Budget Documents of the State Government, RBI, PE & % to NSDP: Calculated

During the post reform period, the total expenditure expanded by 10.83 percent and per capita expenditure rose by 9.7 percent. It is inferred that after reform, developmental expenditure soared at a slower pace.

Between 1991-92 and 2013-14, non-developmental expenditure increased voluminosly in absolute term and registered 14.12 percent growth rate. In per capita term the expenditure amounted to Rs.307.47 in 1991-92 and it rose continuously and reached Rs.6919.84 in 2016-17 which registered 12.72 per cent growth. Both total and per capita non developmental expenditure have witnessed more growth than developmental expenditure.

The ratio of developmental expenditure to Net State Domestic Product declined and since 2003-04, less than 9 per cent of state income went for development activities. From 2012-13 onwards, the data shows some sort of increasing tendency in the percentage share. The ratio of

non developmental expenditure to Net State Domestic Product revealed irregular movement ranging between 7.16 per cent in 2002-03 and 3.56 in 2013-14. However, on the whole, it can be said that after reforms the growth of developmental expenditure is comparatively less and the share of developmental expenditure in NSDP has declined significantly. These trends must be reversed.

Regression Co-efficient for developmental expenditure is 0.94. But it is 1.10 per cent for non-developmental expenditure. It depicted that economic reforms have the impact of compressing developmental expenditure in Tamil Nadu. The present study endorses the general opinion that economic reforms compress the developmental expenditure in order to reduce fiscal deficit. So, it is inferred that, as far as, the state Tamil Nadu is concerned, economic reforms have unfavorable impact on developmental expenditure.

### **Conclusion**

Public expenditure on education, health, housing, agriculture, industry, transport, energy etc. is a necessary pre-requisite for achieving human welfare, economic growth, equity and stability. What is worrisome is after 1991, percentage share of developmental expenditure to total expenditure and state income has declined. Economic reforms have certainly affected public expenditure in general and development sector in particular. Fiscal consolidation must therefore focus on changing the composition of expenditures. That is fiscal contraction should be achieved only through a cut in non-development spending like unwanted subsidies, free gifts, etc. Public expenditure and economic development have mutual dependency and hence higher allocation should be made on development head.

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